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STATE FOR WHA/AND
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TREASURY FOR SGOOCH
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TAGS: [ECON](#) [ECPS](#) [EINV](#) [BL](#)
SUBJECT: TELECOMMUNICATIONS UPDATE

REF: A. LA PAZ 1660

[1](#)B. LA PAZ 2196
[1](#)C. LA PAZ 1661

[1](#)1. (SBU) Summary: The Bolivian telecommunications sector has grown and increased in competitiveness significantly since privatization and market opening during the last decade. The GOB announced in June that it would seek to regain majority ownership of the former state-owned telecommunications company, Entel (ref A). The Director General of Telecommunications told Econoff on October 12 that the government does not want to take over operating control of Entel, but merely wants majority ownership to have access to the company's profits to use for expanding rural telephone services. The GOB's plan to eliminate the current regulatory system and create new regulatory agencies under ministry control (ref A) will not likely be implemented before mid-2007. The government aims to expand rural telephone services through the creation of community information centers and placement of public phones. End summary.

Background: Sector Growth Since Capitalization

[1](#)2. (SBU) The state-owned telecommunications company, Entel, was partially privatized (capitalized) in 1995. Telecom Italia purchased 50 percent of the company, 47.5 percent was given to managers of Bolivian pension funds for benefit of the Bolivian public, and 2.5 percent went to state workers. Entel held a monopoly on long-distance services until 2001, when the market was opened up for private investment. Today there are 10 long distance operators, 17 local operators (16 cooperative plus Entel), and 4 mobile service providers, including two U.S. investors. Although there has been little growth in fixed line service since 1996 (installing a fixed line costs approximately USD 1,200), mobile service market penetration has gone from zero percent to 25 percent. According to the President of Entel, Franco Bertoni, Entel controls approximately 65 percent of the long distance

market, 65 percent of the mobile market, and 80 percent of the data market. Bolivia has the lowest tariffs in Latin America, Bertoni said.

GOB Wants to Leave Operations to Private Sector

13. (SBU) The GOB announced in its National Development Plan in June that it intends to regain majority ownership of nine of the companies that were capitalized in the 1990s (ref A), including Entel. However, because of the significant obstacles it has encountered in the hydrocarbons sector (ref B), it is unlikely to attempt to implement this plan in the foreseeable future. According to Bertoni, the GOB has not yet discussed this plan with Entel. Both Telecommunications Director General Pedro Solares and Telecommunication Superintendent (regulator) Clifford Paravicini told Econoff on October 12 that the government does not want to take over Entel's operations and that government wants to take a more careful approach in telecommunications than it did in hydrocarbons. They agreed that the government wants majority ownership of Entel to have access to Entel's profits in order to implement social programs, like expanding rural telephone networks, but does not want to operate the company. According to Solares, the government realizes that private operators are more efficient, less corrupt, and less politicized than state-run businesses and does not want to harm the sector. Meanwhile, Telecom Italia, as part of its overall Latin America strategy, is seeking to sell its shares in Entel. Bertoni denied rumors that the company has had discussions with Venezuela's CANTV regarding the sale.

GOB's Plans to Reform Regulator Delayed

14. (SBU) The government announced in June that it plans to eliminate the current independent regulatory system and create new regulatory bodies within the ministries (ref A). A U.S. telecoms investor told Econoff previously that although the regulator was at times corrupt, the telecommunications sector had achieved significant advances under the current independent regulatory system that tended to be more transparent than the prior system of ministry oversight and was based on free competition. He added that the elimination of the regulator and transfer of oversight functions to the ministry would mean that sector decisions would be based on politics rather than economic or consumer concerns (ref C). According to GOB representatives, the new system would seek a better balance between industry and consumers, because the current system, they argue, favors industry at the expense of consumers and has failed to ensure rural services access. Director General Solares said that the plan was designed to strengthen the ministries, but that the independence of the regulators would be maintained. The ministries would set the norms, but would not interfere in the daily functions of the regulators, he explained. However, reforming the regulatory system would require several legal changes, and thus the reforms would not likely be implemented until mid-2007, Solares said.

GOB Seeks to Expand Rural Services

15. (SBU) Director General Solares explained that the government aims to increase rural telephone coverage through a USD 130 million investment over the next four years in community information centers and public phones. He explained that while 60 percent of urban dwellers have access to personal telephones, only 0.6 percent of rural residents do, and only 30 percent of rural dwellers have access to public phones. The community telephones would be partially financed through a telecommunications fund, which now contains more than USD 3 million from company fines. Superintendent Paravicini said that the superintendency plans to work with small private companies to provide community information centers, including telephones, Internet, and television, to 240 towns by February 2007. The government also plans to grant subsidies to companies to extend coverage to rural areas.

16. (SBU) Comment: Director General Solares' comment that the

government wants to take a more careful approach with telecommunications than it has with hydrocarbons suggests that the government is not likely to rush into taking over telecommunications businesses, but will focus on the high profile sectors of hydrocarbons and mining for now. The remarks of Solares and Superintendent Paravicini are reassuring in that they indicate that the government understands the benefits that private sector investment has brought to the public and that it does not want to impede private operations in the telecommunications sector. End comment.

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